



Appendix E

United Healthcare

Single Third Party Administrator Concept Paper

Presented by
United Health Care

Overview

CalPERS is a unique organization and requires unique solutions for it to maintain its relevancy, enhance its leadership position, and drive its healthcare agenda. These solutions require adoption of new and innovative business models. The traditional multi-vendor managed competition model has already demonstrated that it cannot generate the results that the State or Public Agency constituents demand. In order to achieve the levels of control, flexibility, transparency and velocity necessary to deliver a high quality, cost effective solution to your members CalPERS needs to operate as a health plan. CalPERS has the size and scope to operate as a health plan and by adopting a health plan operating model will reduce expense, improve quality and create a consistent, predictable benefit platform for all of the public entities in California. With a new business model, CalPERS can drive real improvements in health and wellbeing for its 1.2 million members.

The system will be branded as the *CalPERS Health System* and will have a phased implementation over a 3-5 year timeframe to move to a full health plan operating model. The CalPERS Health System will be run jointly by CalPERS and their partner as selected through a competitive bidding process. Selecting a skilled partner who can dedicate the necessary resources to the venture will be critical to the long-term success of the program. A long term contract ensures commitment, stability and predictability.

Administrative Expense Impact

CalPERS current model has many sources of administrative expense the calculation of which would be nearly impossible. Each individual vendor has a different method of calculating administrative expense as well as a different definition of administrative expense. For example, medical management for health care companies are sometimes included in medical expense and sometimes identified as administrative expense. This cost is generally in the \$1.50 - \$1.75 PMPM level which translates into a \$20-25 million annually that is largely untraceable and unmanageable in your current environment. This is just one example of hidden administrative expense in your current model.

The administrative cost of a health plan operating model will be lower than the current model if you only eliminate the profit margin from the equation. If a 1% profit margin is assumed for each carrier today, the aggregated profit by carriers is \$50-55 million annually.

We recommend, however, that CalPERS not approach this decision with a goal of reducing administrative expense. Rather, we recommend that the administrative savings be reinvested into programs that will generate greater savings in medical expense and improvements in quality such as enhanced disease management or member engagement programs. One of the requirements of the operating partner will be to work collaboratively to identify and implement these programs.

Streamline Efficiencies Through Standardization

Streamlining and standardizing the management of administrative expenses will generate some significant savings but the real opportunity for savings is derived from the control, flexibility and velocity offered through the health plan operating model. The new model provides the control to develop consistent standardized disease management programs targeted at specific population cohorts within the membership and the flexibility to modify those programs as necessary to continually hit a moving target. The velocity provided by the new model will allow the CalPERS Health System to move quickly to implement programs as opposed to the current model which requires protracted negotiations with multiple vendors to implement any change.

Potential Cost Savings

The two specific examples cited above will generate \$70-80 million in annual savings but this is just the tip of the iceberg. For example, linking benefits to evidence-based medicine has proven to reduce cost in every case where such a strategy has been implemented. If evidence-based benefits were to yield a 1% savings in medical expense that is a \$40-45 million annual savings. In the current structure it will take 18-30 months to implement such a change. In the CalPERS Health System model it will take 6 months. That is potentially 2 years worth of additional savings due to the increase velocity of the new operating model. This translates to \$80-90 million from speed to market alone. This opportunity only exists in the health plan operating model, not in the model as it is configured today.

Improve Quality of Care

With the multiple and disparate quality measures and reports being presented to CalPERS today it is nearly impossible to assess a baseline of quality being provided to CalPERS members. The CalPERS Health System will develop a specific set of quality metrics utilizing evidence-based medical standards that will be applied consistently across all providers. This will define the baseline off of which improvement can be measured and managed through a robust data warehouse supported by detailed consistent reporting.

Reduce Adverse Selection Risk

The first phase of any proposed implementation plan must include a comprehensive post-enrollment risk adjustment methodology to assure that the “money follows the risk”. This risk adjustment methodology remains in place as long as there is any risk of adverse selection against a carrier. This risk adjustment methodology will eliminate a significant majority of the selection risk.

Summary

CalPERS has the opportunity to take a bold step and change their operating model. Under this new model the Board will have unprecedented levels of control, flexibility and transparency. It will also provide the velocity necessary to keep pace with the rapid changes in the healthcare environment. The members are the ultimate beneficiaries of this new model – higher quality, improved access, more cost-effective care.

This solution is available to very few organizations. Rarely does an organization have the size, scope or structure to make it viable. CalPERS can adopt a health plan operating model and its members will benefit greatly when it chooses to do so.